

Message Text

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14-11

ACTION EUR-12

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TO SECSTATE WASHDC 0129

INFO AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: ENRG, EIND, IT

SUBJECT: ESSO CONDITIONS ITS STAY IN ITALY

1. SUMMARY: ESSO ITALIANA PRESIDENT SALA, FOR THE FIRST TIME PUBLICLY, HAS TIED THE COMPANY'S CONTINUING PRESENCE IN THE ITALIAN MARKET TO AN IMPROVEMENT IN THE COMPANY'S PROFIT AND LOSS PICTURE. END SUMMARY.

2. DURING AN INTERVIEW PUBLISHED IN ROME DAILY IL TEMPO MARCH 14, ESSO ITALIANA PRESIDENT ALDO SALA STATED THAT ESSO ITALIANA COULD NOT INDEFINITELY SUSTAIN LOSSES AND CONTINUE TO REMAIN IN THE ITALIAN MARKET. SALA REITERATED PETROLEUM INDUSTRY POSITIONS ON THE NEED FOR INDUSTRY PRICE RELIEF, EMPHASIZING ONCE AGAIN THAT REVENUES FROM PETROLEUM PRODUCT SALES DO NOT COVER COSTS. POINTING OUT THAT ITALIAN DOMESTIC PRICES (COMPANY LEVEL) ARE MUCH LOWER THAN EUROPEAN PRICE LEVELS, SALA NOTED THAT THE

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MINISTRY OF INDUSTRY DID NOT EVEN APPLY ITS OWN RULES FOR

DETERMINING PETROLEUM PRODUCT PRICES. REFERRING TO MIN
IND DONAT CATTIN'S DECLARATION THAT RECENT COST DATA SUBMITTED
TO THE MINISTRY BY THE COMPANIES WAS QUOTE INFLATED UNQUOTE.
SALA CHALLENGED DONAT CATTIN SHOW WHICH FIGURES WERE INFLATED.

3. COMMENT: AT LUNCH ON MARCH 17, SALA DENIED TO EMBOFFS THAT
HIS IL TEMPO POSITION SIGNIFIED A SHIFT IN ESSO ITALIANA
THINKING. PERHAPS NOT, BUT SALA'S REMARKS WERE THE FIRST TIME
THAT ESSO HAS PUBLICLY CONDITIONED ITS PRESENCE IN THE ITALIAN
MARKET, AND THE REMARKS HAVE BEEN WIDELY INTERPRETED AS AN
ESCALATION OF THE RHETORIC. THE SALA INTERVIEW FURTHER
EXACERBATES THE DIFFICULT RELATIONS BETWEEN THE COMPANIES AND
THE MININD ON THE PRICE ISSUE, PARTICULARLY SINCE SALA APPEARS
TO CONDITION ESSO'S PRESENCE ON GOI ACCEPTANCE OF THE LATEST
COMPANY REQUESTS.

4. COMMENT: DURING MARCH 17 MEETING WITH ASSISTANT SECRETARY
ENDERS, DONAT CATTIN COMPLAINED THAT COMPANY PROFIT AND LOSS
POSITIONS WERE DIFFICULT TO DETERMINE OBJECTIVELY DUE TRANSFER
PRICING ISSUE; AS WELL, THAT COMPANIES DESERVED LITTLE SYMPATHY
BECAUSE OF ENORMOUS PAST PROFITS. DONAT CATTIN ALSO NOTED
THAT PETROLEUM PRODUCT PRICES ARE HIGHLY POLITICIZED IN
ITALY.

5. COMMENT: EVEN IF INCREASES GRANTED, PROFITABILITY MAY
REMAIN ELUSIVE. ESSO HAD PREVIOUSLY CONFIDED TO EMBOFFS THAT
PRICE RELIEF WOULD NOT NECESSARILY RESTORE PROFITABLE OPERATING
CONDITIONS. PRODUCT SALES ARE AT LOW LEVELS AND DEMAND IS
STAGNANT; THUS, A PRICE INCREASE CAN NOT BE SPREAD ACROSS
ENOUGH VOLUME TO SIGNIFICANTLY IMPROVE PROFITABILITY IN
1975, MUCH LESS RECOUP 1974 LOSSES. EVENTUALLY, IT SEEMS LIKELY
THAT THE COMPANIES WILL OBTAIN A MEASURE OF PRICE RELIEF, BUT
IT WILL FALL SHORT OF THEIR REQUESTS AND EVEN SHORTER IN TERMS
OF PROFITS. VOLPE

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